

AR39

ALLIS-CHALMERS ANNUAL REPORT 1969



HIGHLIGHTS

	1969	1968
Sales	\$804,736,864	\$777,102,100
Net Income (Loss)	\$ 18,422,667	\$ (54,589,720)
Per cent of Sales	2.3%	(7.0%)
Per cent of Shareholders' Equity ..	5.0%	(17.9%)

PER COMMON SHARE

Net Income (Loss)	\$ 1.51	\$ (5.26)
Dividends	\$ —	\$.62½
Book Value	\$ 30.50	\$ 29.22

AT YEAR-END

Working Capital	\$211,204,566	\$157,723,362
Current Asset Ratio	1.99 to 1	1.59 to 1
Common Shareholders	35,863	40,996

WORLDWIDE STATISTICS

Capital Expenditures	\$ 29,240,000	\$ 30,934,000
Payrolls	\$273,002,344	\$278,442,033
Employees	29,958	32,202

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GENERAL OFFICES — West Allis, Wisconsin

STOCK TRANSFER AGENTS — Morgan Guaranty Trust Company, New York, New York; Continental Illinois National Bank & Trust Company, Chicago, Illinois

SPECIAL ANNOUNCEMENT

Allis-Chalmers has reached an agreement in principle with Kraftwerk Union of Germany to form an engineering and marketing company—Allis-Chalmers Power Systems—to sell and service thermal electric power generating equipment to utilities in the U. S. This will enable us to promptly re-enter the steam turbine and generator market. Kraftwerk Union manufactures steam and gas turbine generator units and is jointly owned by Siemens AG, the largest manufacturer of electrical, electronic and nuclear equipment in Germany, and AEG Telefunken.

Allis-Chalmers also agreed with Siemens on an arrangement for future formation of a jointly owned company or companies for the development, manufacture and sale in the U. S. of a broad range of electrical products. As a first step in implementing this arrangement, Allis-Chalmers will be licensed under Siemens' technology to manufacture and market a wide range of products to serve the electric utility and industrial markets.





REPORT TO SHAREHOLDERS

The year 1969 was a particularly eventful one for Allis-Chalmers.

The energies of the total Company were directed to completing the numerous programs implemented to begin turning the Company around. The management organization was realigned into profit oriented groups related to the markets they serve. Product lines were restructured, plants consolidated, and excess plant capacity sold.

It is gratifying to report that these efforts resulted in our exceeding the goals set for the first year's program to begin building a new Allis-Chalmers.

Net income of \$18.4 million, after normal provision for taxes, provided earnings of \$1.51 per common share and common equivalent share on sales of \$805 million. These results compare to prior year sales of \$777 million, on a restated basis, and the reported loss of \$54.6 million after tax.

Simultaneous with our activities to correct past problems, action was taken to implement strategies for changing our business structure to provide future growth of earnings. A new plant for the Outdoor Products Division was completed at Lexington, South Carolina. Construction was started on a new plant at Little Rock, Arkansas, for motors, and the Material Handling Division broke ground for a new facility at Matteson, Illinois.

During 1969 the acquisition of Standard Steel Corporation was completed, and a major marketing and manufacturing license agreement was entered into with Lancer Boss Limited of Great Britain. We announced our entry into the home appliance business, and purchased 80 per cent of the equity in Lantz

International Corporation, an organization engaged in importing, designing and marketing household appliances.

We are currently assessing various opportunities to expand our participation in the two major growth markets we have identified — electrical equipment and construction machinery, including material handling equipment. The broadening of our activities in either of these areas may take the form of a joint venture. A partner having strong technical capabilities would permit us to substantially compress the required engineering time and bring to market a broader line of proven products at an accelerated rate.

Although it appears that 1970 could produce a softening of the United States economy, our plans are based on carrying forward the many programs begun last year and aggressively pursuing new business opportunities in the markets selected. We believe that this balanced strategy will permit us to sustain growth in both sales and earnings.

During 1969 we increased our share of international business. The growing world economies indicate a continued need for many of the products we manufacture. Aggressive programs have been initiated to broaden our participation in world markets through increased capital investment and associations with partners.

Results of 1969 started the turnaround of Allis-Chalmers. The task is to build a well-balanced cohesive enterprise of businesses which are mutually reinforcing. Thus, the Company would have an economic stability not available to a single product business.

I intend to continue the development of a management team that sets tough goals and demands unusual performance; a team that has the experience and skill to direct a diverse, highly technical company; one that has the creativity and imagination to pursue more profitable markets and products and services, and knows when and how to abandon unprofitable activities; one that considers and understands the world as its market. I have made the first moves in developing such a team this past year.

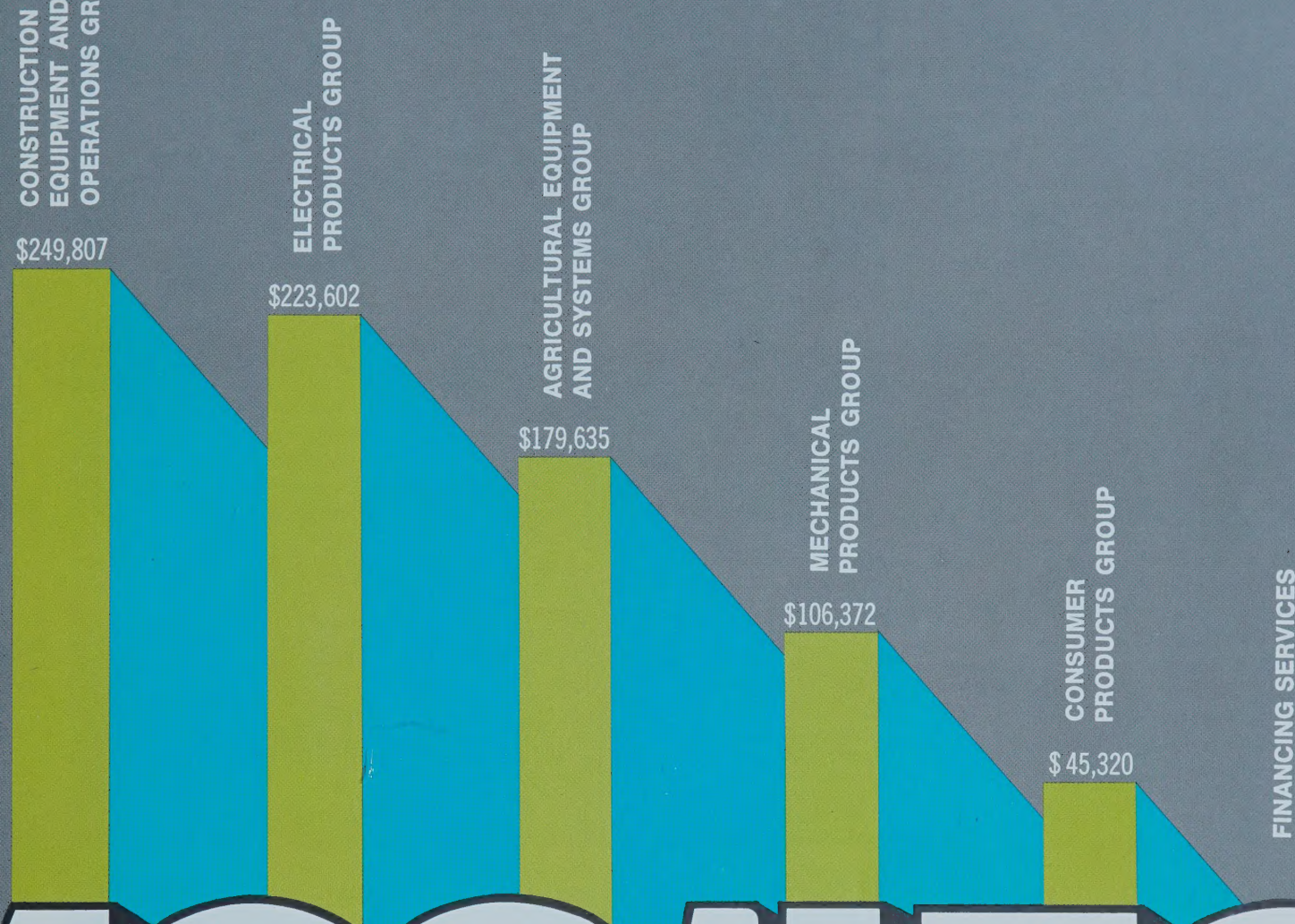
I hope this brief review has increased your understanding of our progress in 1969. Your new management is vigorously continuing its effort to build a strong, profit-making company to better serve our customers, shareholders, employees and the communities in which we live.



David C. Scott
President and Chairman of the Board

March 16, 1970

SALES
for the year 1969
(thousands)



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CONSTRUCTION EQUIPMENT & OVERSEAS OPERATIONS GROUP

Handling of materials, from earthmoving to fork-lift applications, is one of the major growth markets targeted for expanded Allis-Chalmers participation. Product activity is centered in three divisions of the Construction Equipment and Overseas Operations Group—Construction Machinery, Material Handling and Industrial Tractor. The combined potential annual market for the industries in which they participate is estimated to be in excess of \$8.5 billion in the Free World. The annual real growth rate is estimated to average 7 per cent in the next five years.

The group's Engine Division is a power source for Company products, and it serves commercial engine users on an increasing basis. The Parts Central Division distributes service parts for construction machinery, material handling equipment and engines. The International Division markets all Company products sold outside the United States and Canada and those produced by overseas subsidiaries.



Top: An HD-41 crawler tractor, the world's biggest, takes on a stripping and spoil bank reclamation assignment for a coal mining company in Ohio. Below: Another HD-41 rips and dozes rock on a highway project in Arizona.



Partially assembled tractor scrapers (left) and motor graders move down new production lines constructed in a \$2.5 million rearrangement of Springfield plant facilities.

CONSTRUCTION MACHINERY DIVISION

The needs of a rapidly growing world population are both a challenge and an opportunity for construction equipment manufacturers. Related aspects are building sites development, including urban renewal; continuing need for better roads, especially overseas; a significant increase in airport construction; rapid expansion of surface mining; and sewer and pipeline work.

Because of increased costs in the construction industry, equipment customers are stressing higher productivity and minimal service needs. To meet these demands, the Construction Machinery Division has intensified its engineering and research, dealer development and after-sales capabilities.

The division's products serve a variety of domestic markets — non-building contractors (highway, general excavating, sewer and water, conservation, pipeline, airport), public bodies, mines and quarries, logging and building contractors. In addition, about one-third of the division's 1969 sales were in export business.

Many of the equipment applications are linked to dynamic change. In the past year crawler tractors, motor graders and wheel loaders tamed a tangle of forest for the expanding development of one of the nation's newest cities, Deltona, Florida. In Burma scrapers, dozers and graders will help harvest salt—a job formerly done by bullocks and elephants.

In keeping pace with market opportunity, the division introduced these products in 1969: the HD-21 Series B, a 268-horsepower crawler tractor particularly suited for general contractors; the 7G Series B crawler loader with a 1 $\frac{3}{4}$ cubic yard bucket, for heavy-duty excavating jobs; and the giant 529-horsepower HD-41 crawler tractor, in a class by itself as a dozer, ripper or pusher. With its unrivaled size and power, the HD-41 is on the threshold of opening new markets for Allis-Chalmers, especially in strip mining. Customer inquiries and firm commitments indicate excellent acceptance of this 51-ton machine.

Design work proceeded on other models in the crawler tractor and crawler loader lines scheduled for future introduction.

In a major realignment for more efficient use of production facilities, consolidation of five plants into two was completed by moving production from the former Cedar Rapids, Iowa, operations to plants at Springfield and Deerfield, Illinois.

Construction is underway at Springfield for a \$1 million world-wide sales and technical services training center. The division's Central Proving Grounds near Browning, Illinois, is the site of a project for a new test facility.

Plants and principal products: Deerfield, Illinois — wheel loaders, tractor backhoe/loader units; Springfield, Illinois — crawler tractors, dozers and loaders, motor graders, tractor scrapers.



A Lancer sideloader handles mail containers at the waterfront in Tacoma, Washington. Although side-loading trucks are relatively new to U. S. ports, they have been in use in Europe for several years.

MATERIAL HANDLING DIVISION

The Material Handling Division has been moving aggressively, introducing new products, entering new markets and constructing a new plant. The breadth of the division's line of lift trucks, sideloaders and other equipment now is equal to anything offered by competition.

A trend with major impact is containerization—the shipment of goods in metal containers. *Lancer* sideloading trucks can handle containers up to 40 feet long at ports and shipping terminals. They can do unlimited block stacking, in which containers are placed in a solid mass to save space, and do ribbon stacking with aisles between. Sideloaders have industrial applications, too, for long and bulky loads as heavy as 100,000 pounds. Twenty-one *Lancer* models were introduced in the past year.

Flexibility to serve a variety of customer requirements is demonstrated by these products recently introduced or scheduled for 1970:

- Twenty-seven sizes of *Boss* front loading lift trucks, from 8,500 to 82,000 pounds capacity. The units handle heavy loads in a variety of shapes, such as lumber, concrete blocks and pipes, tanks and bulky crates, as well as containerized freight.
- Three models of compact lift trucks particularly suited for operating in boxcars, containers, truck trailers and other confined areas.
- Six electric motor hand trucks (walkies) in 4,500 to 6,000 pound capacities. Applications are in distribution industries, the food industry, parts warehouses, service industries and manufacturing.

With new products and the extensive existing line, the Material Handling Division is gearing to handle an increasing volume of commercial and government business. During 1970 the plant being built at Matteson, Illinois, will replace the division's facility at nearby Harvey. The Matteson plant is required to meet growing demand and objectives to increase market penetration and open new markets.

Plants and principal products: Harvey, Illinois—engine (gasoline, LP gas, diesel) lift trucks, electric lift trucks, electric motor hand trucks; Guelph, Ontario—engine and electric lift trucks; Matteson, Illinois—scheduled for production in 1970 when employees and operations are moved there from present Harvey plant.

ENGINE DIVISION

The Engine Division is on target toward expanding its role as supplier of diesel and gasoline engines to original equipment makers and other commercial users, as well as meeting the engine needs of Allis-Chalmers divisions.

For major lines of highway trucks, the division offers eight models of six-cylinder diesel engines with displacement up to 844 cubic inches. The 25000 *Cross-Continent* diesel series is available in five ratings from 365 to 450 horsepower.

Promising markets exist for the division's diesel electric systems, which produce closely regulated power. Emergency and standby power generation is now required by legislation in many states for places like hospitals, nursing homes and government buildings. On-site prime power is becoming increasingly popular in processing industries and in remote locations. An example: 24 isolated Alaskan villages are getting electric power for the first time—from 52 diesel electric systems supplied by Allis-Chalmers.

An important phase of the division's technology is its continuing research aimed at reducing the level of exhaust emissions. The 25000 diesel series has been certified by the Department of Health, Education and Welfare as meeting federal smoke emission standards for highway truck engines; two other series are completing HEW tests. For lift truck gasoline engines, a system has been developed which limits emission of carbon monoxide and hydro-carbons.

Plant and principal products: Harvey, Illinois — diesel and gasoline engines, power units, diesel electric systems.

INDUSTRIAL TRACTOR DIVISION

The Industrial Tractor Division developed new equipment models for 1970 introduction and launched an expansion project that will double production capacity at its Topeka, Kansas, plant. It also initiated a program to upgrade and strengthen its distribution channels.

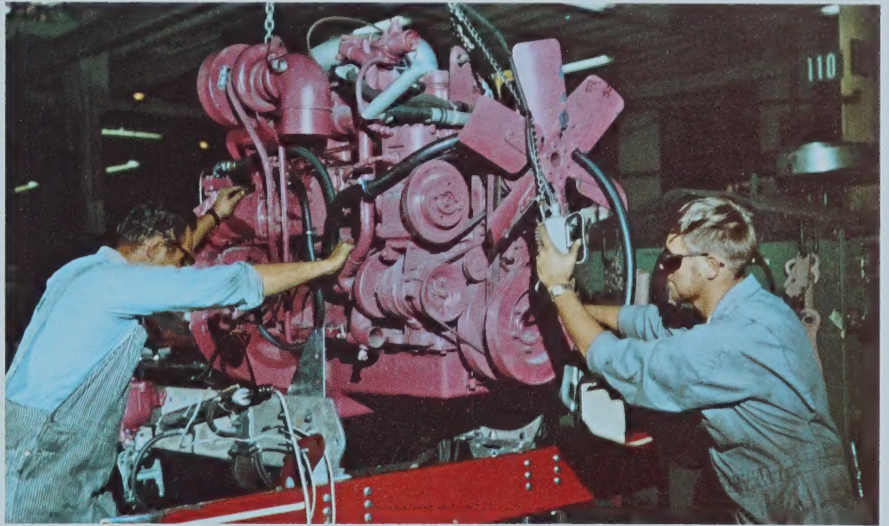
With its wheel and crawler type industrial tractors, loaders and backhoe-loaders, the division fills equipment needs for metropolitan area trenching, ditching, excavating and dozing. Its industrial fork-lifts handle rugged work around construction sites. Reinforcement of the product line anticipates impending release of the pent-up demand for housing and other building construction, with attendant earthmoving activity for foundations, utility lines, pipelaying and landscaping.

In addition, industrial tractors and fork-lifts are well suited for logging operations. A fork-lift adaptation, the *Buckmaster* slasher-loader, picks up logs in a woods, saws them into convenient lengths, then stacks or loads them for shipment to a pulp mill.

Two Allis-Chalmers innovations for 1970 are the first of their kind from a major tractor manufacturer. One is an articulated wheel loader with 1¼ cubic yard capacity, the other an integral frame backhoe-loader in the 16-foot digging depth class. New, too, are a crawler series, including loader and dozer units, and an additional fork-lift line featuring an exclusive rear mounted dozer blade.

Plant and principal products: Topeka, Kansas—backhoes, loaders, fork-lifts, logging equipment and other industrial tractor attachments.

A Model 25000 Cross-Continent diesel engine is guided into position in a truck tractor for over-highway hauling duty.



This Model 615 backhoe-loader is one of the most powerful in the 15-foot digging depth class. It is being joined this year by the Model 816 in the 16-foot class.

PARTS CENTRAL DIVISION

Dealers selling construction machinery, material handling equipment and engines depend on service capability. A key ingredient is parts availability. The Parts Central Division operates modern U. S. distribution facilities and is interrelated with overseas parts services.

A data communications network links domestic regional depots with the main distribution center, Parts Central, located near Chicago. Parts Central's computerized material control system is capable of rapidly identifying the location of available parts. The concept is designed for "same day" domestic service on emergency orders and efficient processing of regularly scheduled dealer stock orders.

Product line service coverage is being expanded this year by adding industrial tractor parts volume.

INTERNATIONAL DIVISION

Working closely with domestic producing divisions, the International Division markets a spectrum of products from construction machinery to electrical, industrial and process equipment. A review of 1969 activity shows these examples:

- Hydroelectric equipment orders for Pakistan and Brazil.
- Penetration of the African mining market with sale of a *Grate-Kiln* iron ore pelletizing system scheduled for 1971 operation in Liberia; production startup of two *Grate-Kiln* plants at iron ore locations north of the Arctic Circle in Sweden and Norway.
- A contract to supply grinding mills and components for a copper complex in Turkey.
- An order to provide the Republic of Panama with construction machinery, industrial tractors, portable crushing plants and asphalt plants for a road building program.

The division also markets products of overseas manufacturing subsidiaries, develops international sources for machines and components and negotiates foreign licensing agreements. The subsidiaries serve agricultural, construction, material handling, engine, industrial and process markets. One of them, Allis-Chalmers Great Britain Ltd., recently announced a major expansion project that will provide the capacity to triple production.

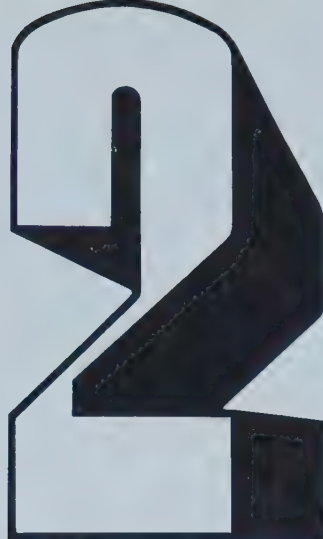
The division's marketing and manufacturing programs were bolstered by two landmark events, the dedication of new parts and service training centers in Liege, Belgium, and Singapore.

Overseas subsidiaries' plants and principal products: Allis-Chalmers Australia (Pty.) Ltd. — at Newcastle, motor graders, dozers, mills, pumps, crushers, screens, pyro-processing machinery; Allis-Chalmers France, S.A. — at Dieppe, material handling, motor graders, engines, generator sets; Allis-Chalmers Great Britain Ltd. — at Essendine, England, wheel loaders, vibrating and gyratory screens, pumps, and at Mold, North Wales, hay balers, tedders, manure spreaders, harvesters; Allis-Chalmers Italiana, S.p.A. — at Milan, crawler tractors, engines. **Affiliate:** A-C Mexicana S.A. — at San Luis Potosi, material handling, motor graders, grinding mills, kilns, screens.



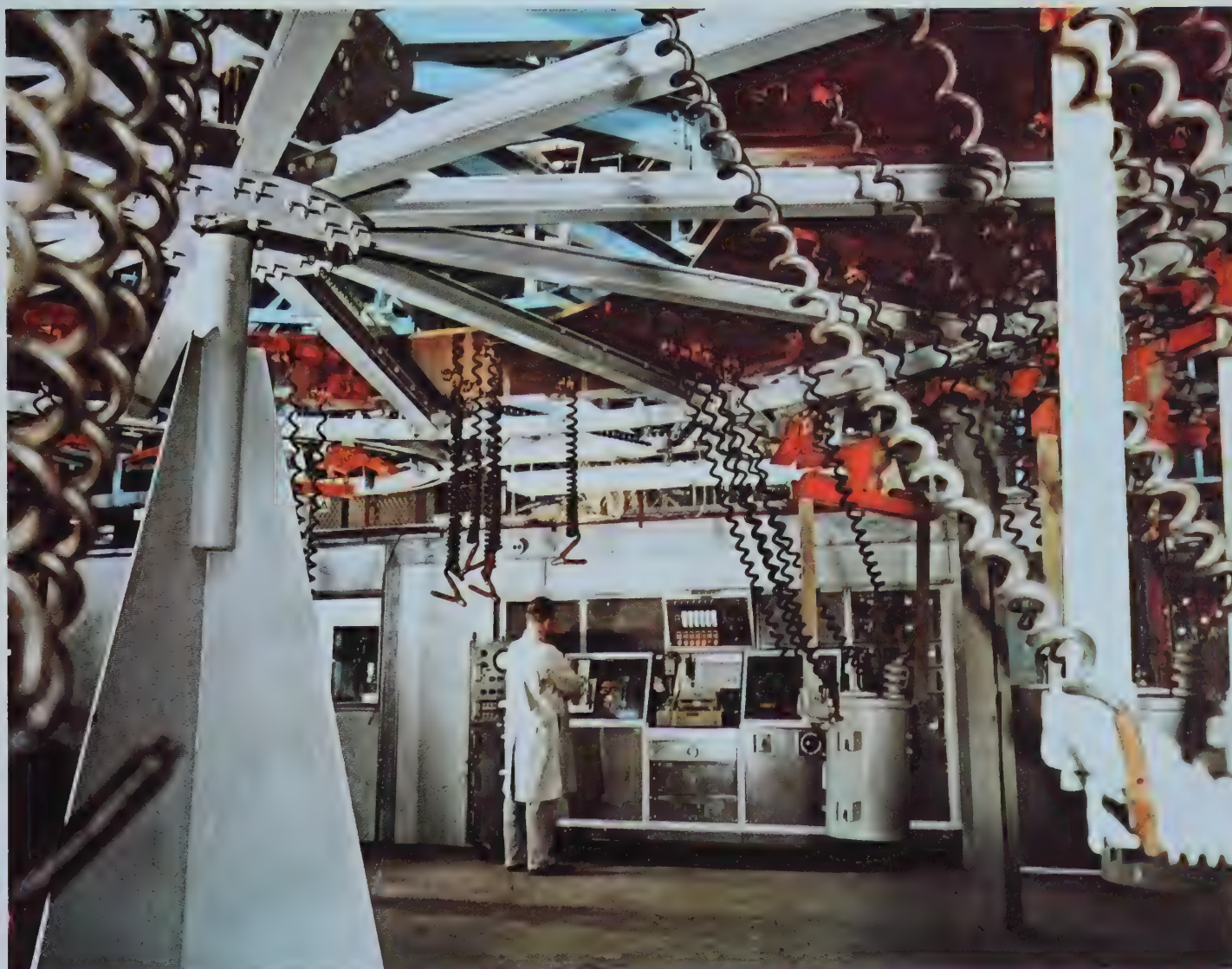
Rows upon rows of parts are neatly stored in the new parts and service training center at Liege, Belgium. The facility provides an ultra-modern instrument of growth and expansion for Allis-Chalmers construction and industrial equipment.

ELECTRICAL PRODUCTS GROUP



Use of electric energy in the U. S. has been growing at twice the rate of the Gross National Product. The Electrical Products Group, serving utilities and industry, provides products which help make electricity available and direct it to specific tasks.

The Power Distribution, Power Transmission and Power Protection and Switching Divisions supply transformers, voltage regulators, circuit breakers and switches. The Hydraulic Products Division makes products used in projects for hydroelectric power, flood control and water storage. Major lines of the Controls Division are industrial control and switchgear products. The Motor and Generator Division produces electric motors, generators and industrial pumps. The present annual potential domestic markets for such products industry-wide total \$3.7 billion. The annual real growth rate is estimated to average 9 per cent in the next five years.



The carousel facility at the Pittsburgh plant employs the latest computerized electrical test techniques for pole-type distribution transformers. Various tests are made on up to 10 units simultaneously as they move around the carousel.

POWER DISTRIBUTION DIVISION

Responsive to utilities' needs, the Power Distribution Division brought forth product innovations, activated new quality programs and completed plant utilization efficiency moves.

Rearrangement and modernization of the Pittsburgh plant have strengthened its capability as a producer of distribution, power, network, load center and instrument transformers. During the year

engineering, manufacturing and merchandising functions for feeder voltage regulators were transferred to the Gadsden, Alabama, plant, placing all basic regulator operations under one roof. That plant also produces underground distribution transformers.

Esthetic considerations are making underground distribution systems popular for residential areas. The division announced the availability of the only pad-mounted regulator for use on such systems. This single-phase PFR regulator is compatible with other distribution equipment such as the *Sub-Tran* closed vault transformer. Also new is the *Resi-Tran 24*, a compact (24-inch high) pad-mounted unit available in several ratings for residential service.

To keep products such as the power transformer and overhead distribution transformer lines strong factors in marketing plans for the 1970's, the division introduced a number of engineering programs promoting product quality. Among these were modification of manufacturing techniques for improvements in power transformer short circuit strength, core insulation, dielectric materials and dielectric design approach.

New for 1970 in load center transformers will be a gas-insulated packaged system which is, in effect, a complete substation. Extension of the instrument transformer product line to 15 types was completed in 1969. The division also introduced two new miniature 600-volt indoor-outdoor current transformers for metering service.

Plants and principal products: Gadsden, Alabama—underground and pad-mount distribution transformers, feeder voltage regulators; Pittsburgh, Pennsylvania—power, distribution, instrument, network, load center transformers.

POWER PROTECTION AND SWITCHING DIVISION

The Power Protection and Switching Division, source of circuit breakers and disconnect switches, has directed engineering and development work toward greater standardization, improved assembly methods and shorter manufacturing cycles. Its products are used by electric utilities and large industrial companies.

Oil and air-blast circuit breakers produced at the Boston plant protect power transmission and distribution systems. The Portland plant's system disconnecting and ground switches cover the entire range of distribution and transmission voltages.

During 1969 the division marketed a new low-profile line of disconnect switches. On most types of switches it introduced silver to silver contacts, a feature designed for durability and reliability.

Plants and principal products: Boston, Massachusetts — oil and air-blast circuit breakers; Portland, Oregon — disconnect switches.

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A cluster of air-blast circuit breakers, protecting a utility system, stands sentinel-like against the Mid-western sky.

CONTROLS DIVISION

The Controls Division witnessed continuing demand for switchgear and control products. New assembly lines and new equipment at its Hawley plant in West Allis anticipate intensified market penetration.

Switchgear protects power systems from overloads and other mishaps at point of use. Industrial control governs and protects motors and their loads. Product end-users are industrial customers, original equipment makers, contractors and utilities.

An example of switchgear application was an order for four groups of 5,000-volt equipment, plus 27 substations, for expansion of an airline's maintenance facilities at Kennedy International Airport, New York. Also supplied for that project were motor control centers.

A sophisticated innovation is the operation of the first mathematical model computer-controlled temper mill in the steel industry. The control system for the coil rolling facility in Illinois was designed, engineered and supplied by Allis-Chalmers. At a steel plant in Indiana, the division provided digital control and other electrical equipment for a new continuous merchant mill designed to roll square billets into bar stock of various shapes.

Plant and principal products: Hawley (West Allis, Wisconsin) — control, switchgear, automation control systems, dc products.

An operator checks his station at a computer-controlled temper mill in an Illinois steel plant. Allis-Chalmers designed the control system.



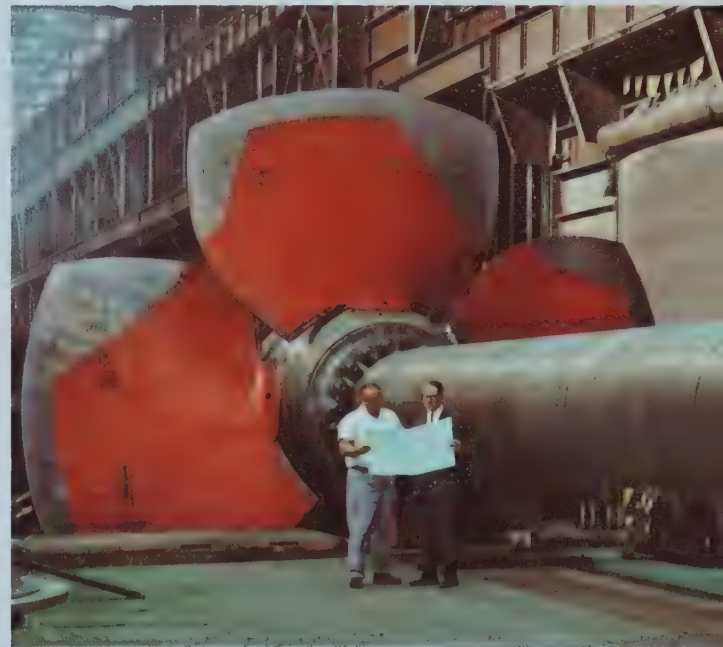
HYDRAULIC PRODUCTS DIVISION

The Hydraulic Products Division is prepared with versatile capabilities to serve future requirements for hydroelectric power, flood control and water storage projects. Products for those purposes include hydraulic turbines, reversible pump-turbines, large shut-off valves and water control gates.

A sampling of orders and shipments in the past year demonstrates versatility. Hydraulic turbines were ordered for hydroelectric projects in Brazil and Pakistan. Four *Bascule* water control gates, believed to be the world's largest, were built for a pumped storage project in Massachusetts. Two of the largest turbine inlet valves ever made at the York, Pennsylvania, plant were shipped to a hydroelectric project in Oklahoma.

Besides jobs like those, York plant operations involve building and machining nuclear reactor components, custom fabrication of heavy weldments and custom machining of large parts.

Plant and principal products: York, Pennsylvania — hydraulic turbines, pump turbines, valves, water control gates and hoists, trash rakes, nuclear components.



From the floor of the York plant this runner and shaft assembly for a Tube turbine is destined for a hydroelectric project site in Arkansas.

MOTOR AND GENERATOR DIVISION

The Motor and Generator Division announced product line introductions or expansions in electric motors, generators and industrial pumps. A new plant built at Little Rock, Arkansas, is scheduled to start operations soon, producing motors from one to 40 horsepower.

For the division's ac motors, major customers are original equipment manufacturers, such as the pump and compressor industry. Large motors and generators are used by electric utilities, metal rolling mills and chemical, petroleum and pulp and paper making industries. Smaller generators are sold to engine builders, primarily for prime power and emergency-standby applications. Markets for pumps include water and waste, chemical, petro-chemical and pulp and paper making.

The division has developed a new generation of *Synduction* motors for constant speed requirements of special drive systems. Prime use of these motors is in the synthetic fiber industry. The *Synduction* motors have been rated in line with standard induction motors. Also introduced was the *VersaPac* synchronous motor line in ratings from 150 to 6,000 horsepower.

The new *MiCLAD* insulation system has been extended to all large standardized motors and to large custom engineered motors. The system seals windings against moisture, conductive dust and airborne contaminants.

New also are light-weight synchronous generators for engine-generator service with applications for aviation, industrial, marine, military and institutional use. Ratings for vertical primary coolant pump motors were extended to include 9,000 horsepower. Such motors are used at nuclear power generating stations.

In the industrial pump line, two types were introduced to meet heavy-duty demands in the chemical, petro-chemical and paper making industries. The series of pumps produced for water production and distribution, heating, ventilating and air conditioning uses was expanded, as was the size range of general purpose pumps.

Plants and principal products: Norwood, Ohio—electric motors, generators, pumps; West Allis, Wisconsin—large motors; Little Rock, Arkansas—newly constructed to produce small motors.



Nuclear power stations have created a market for motors that drive pumps circulating cooling water when the reactor is generating heat. This is one of four such units ordered for a Michigan plant.

POWER TRANSMISSION DIVISION

The Power Transmission Division's efforts were aimed at specific needs of electric utilities. The division produces power transformers required for transmission of electricity from generating station to power distribution centers within a utility system. These transformers also are used for transmission of power over extra-high-voltage (EHV) tie lines, both on and between utility systems.

An innovation in 1969 was the *Cor-Pak* auxiliary core, a design feature that increases over-voltage capability in higher rated shell form transformers and also prevents overheating.

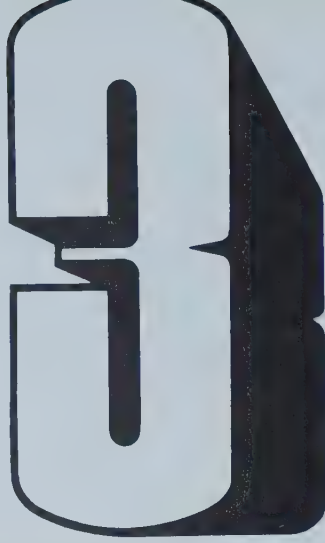
In another development, core form power transformers augment the division's shell form design in self-cooled EHV ratings. Auto-transformers of like ratings also will incorporate the core form design. The non-bolted feature is continued from medium power transformers to permit low sound levels and to minimize core losses.

Plant and principal products: West Allis, Wisconsin — large and medium power transformers.



An extra-high-voltage power transformer at a substation ties a Texas transmission line into a system.

AGRICULTURAL EQUIPMENT & SYSTEMS GROUP



Agriculture in 1969 demanded larger machines that do more work—and do it better—than ever before. Operating within the Agricultural Equipment and Systems Group, the Farm Equipment Division served the farmer—large operator and small—by providing machinery and implements for all major crops planted and harvested in the U.S. and Canada. The farm equipment industry's 1969 U.S. and Canadian retail sales, excluding repair parts, were estimated at \$2.4 billion. The annual real growth rate is projected to average 4 per cent over the next five years. However, because of the cyclical nature of the business, Allis-Chalmers is not forecasting an increase in volume in 1970; the next upturn appears likely in 1971.

Beyond current operations, the group examined possibilities for broader participation in the growth of corporate agriculture by utilizing a greater span of products in a systems approach to irrigation.



A fleet of Gleaner combines harvests soybeans grown in a 10,000-acre operation in Mississippi.

FARM EQUIPMENT DIVISION

Introduction of new products, development work for future equipment and updating of existing lines were important 1969 activities of the Farm Equipment Division.

The division broadened its wheel tractor line with a 135-horsepower model and a 40-horsepower unit. For 1970 introduction, it prepared the *Crop Hustler* line of 62 and 74-horsepower tractors designed for higher speed operation where permitted by soil conditions and farming techniques used.

Three new *Gleaner* combine harvester models were introduced for rice, hillside and corn-soybean applications. Attention for the future is focusing on machines that can accommodate bigger yields from increased acreage in the face of reduced farm labor sources. New attachments available for *Gleaner* units include low-profile corn heads, fitting the needs of large grain growers.

New models of hay and forage tools, plows, cultivators and harrows also were introduced. During the year continuing favorable reports were received based on farmers' experience with the previously introduced *No-Til* planter line aimed at reducing seedbed preparation costs.

A new wholesale plan for dealers was announced late in 1969 to supplement existing financing plans. It rewards good money management and offers to customers selected equipment at lower cost.

Consolidation of two manufacturing facilities was effected during the year. The plant at LaCrosse, Wisconsin, was closed and its production of implements moved to the larger, more modern plant in LaPorte, Indiana. Also announced, early in 1970, was a plan to phase out forge shop operations at West Allis.

Plants and principal products: Independence, Missouri — self-propelled combines; LaPorte, Indiana — grain, hay and forage harvesting machinery, manure spreaders, cotton strippers, planters, corn heads, tillage tools, cultivators; Oxnard, California — deep tillage tools, cultivators, offset disc harrows, tool carriers; West Allis, Wisconsin — tractors.



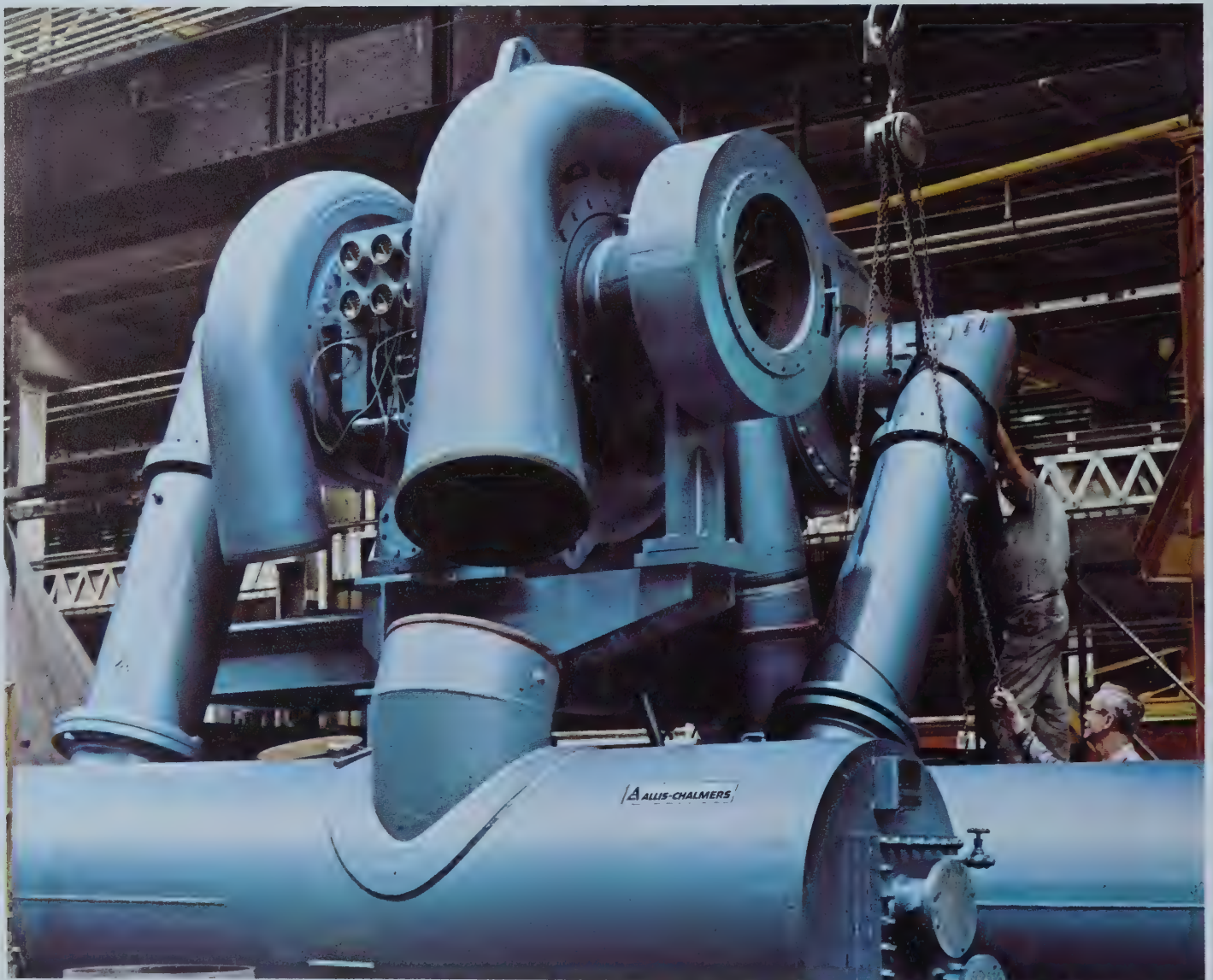
An Irrigated Colorado cornfield grows green and tall as an Allis-Chalmers power unit pulses out a flow of water.

Left: In another Colorado location, a farmer driving a new Model 220 Landhandler tractor turns the soil for a new crop.

MECHANICAL PRODUCTS GROUP

The Mechanical Products Group serves multiple markets by building machinery for industrial purposes and providing equipment and systems for processing activities. The combined industry total of the present annual potential markets is about \$2.4 billion. It is estimated that the annual real growth rate will average 6 per cent in the next five years. The four divisions in the group are Industrial Machinery, Cement and Mining Systems, Aggregate and Coal Equipment and Paper Machinery. The group also includes two subsidiaries, Stansteel Corporation and Allis-Chalmers Canada Limited.

Allis-Chalmers recently concluded an agreement with Voest of Austria to market and manufacture Voest-designed machinery for continuous casting of steel in the U. S. This will broaden the Company's ability to serve the steel industry in the area of hot metal processing.



A unit is assembled at West Allis for the largest integral gear centrifugal compressor introduced by the Company. It will provide air in a plant that separates oxygen, nitrogen and other components.



A portable crushing plant is at the center of a sand and gravel operation near Milwaukee.

INDUSTRIAL MACHINERY DIVISION

The Industrial Machinery Division moved ahead in 1969 as a producer of equipment for air and gas handling and the control and pumping of fluids. Product developments in compressors, valves and custom pumps were in line with developments in market opportunity.

Five additional sizes expanded the group of compressors serving applications in air separation, nitrogen recycling, plant air supply and aviation testing. Volume and pressure ranges were increased for the type of compressors in demand by metals processors. Other lines met requirements of petro-chemical and process industries.

An important addition to the valve lines was a small butterfly valve designed for underground service in municipal water distribution systems. Demand continued for larger butterfly units and for cone valves in water and waste treatment control usages, as well as electric utility applications.

Size ranges were expanded in two lines of pumps, including those designed for large volumes of clear liquids and water in commercial, institutional and industrial applications. A highlight was an order which brought to 36 the number of pumps the Company is supplying for a giant water relocation project in California. The four latest pumps are for the largest pumping station on the aqueduct. Each will be 31 feet high, 11 feet in diameter and weigh 225 tons.

Plants and principal products: West Allis, Wisconsin—compressors, pumps; York, Pennsylvania—valves.

AGGREGATE AND COAL EQUIPMENT DIVISION

The Aggregate and Coal Equipment Division has broadened its line with a new compact jaw crusher and a portable crushing plant. For better utilization of manufacturing space, the division moved to the Company's plant in Appleton, Wisconsin, from West Allis.

Crushers, portable crushing plants and vibrating screens serve the metallic and non-metallic minerals industries. Principal segments of the market are crushed stone, sand and gravel, bituminous coal, iron ore and copper ore.

The new jaw crusher is designed to handle large volumes of ore or rock with maximum economy and product uniformity. The portable crushing plants are easily moved to different job-sites in sand and gravel or crushed stone operations. An important order in portable plant business involved the sale of five units for use in a road building project in Panama.

Also underscoring the division's Latin American market potential, two giant primary crushers were shipped to copper mine locations in the interior of Chile. That equipment, with extra parts, filled six rail-road cars and weighed more than one million pounds.

Among significant sales were 27 vibrating screens for a new coal facility in Illinois and two portable crushing and screening plants for military purposes.

Plant and principal products: Appleton, Wisconsin — crushers, portable crushing plants, vibrating screens.

CEMENT AND MINING SYSTEMS DIVISION

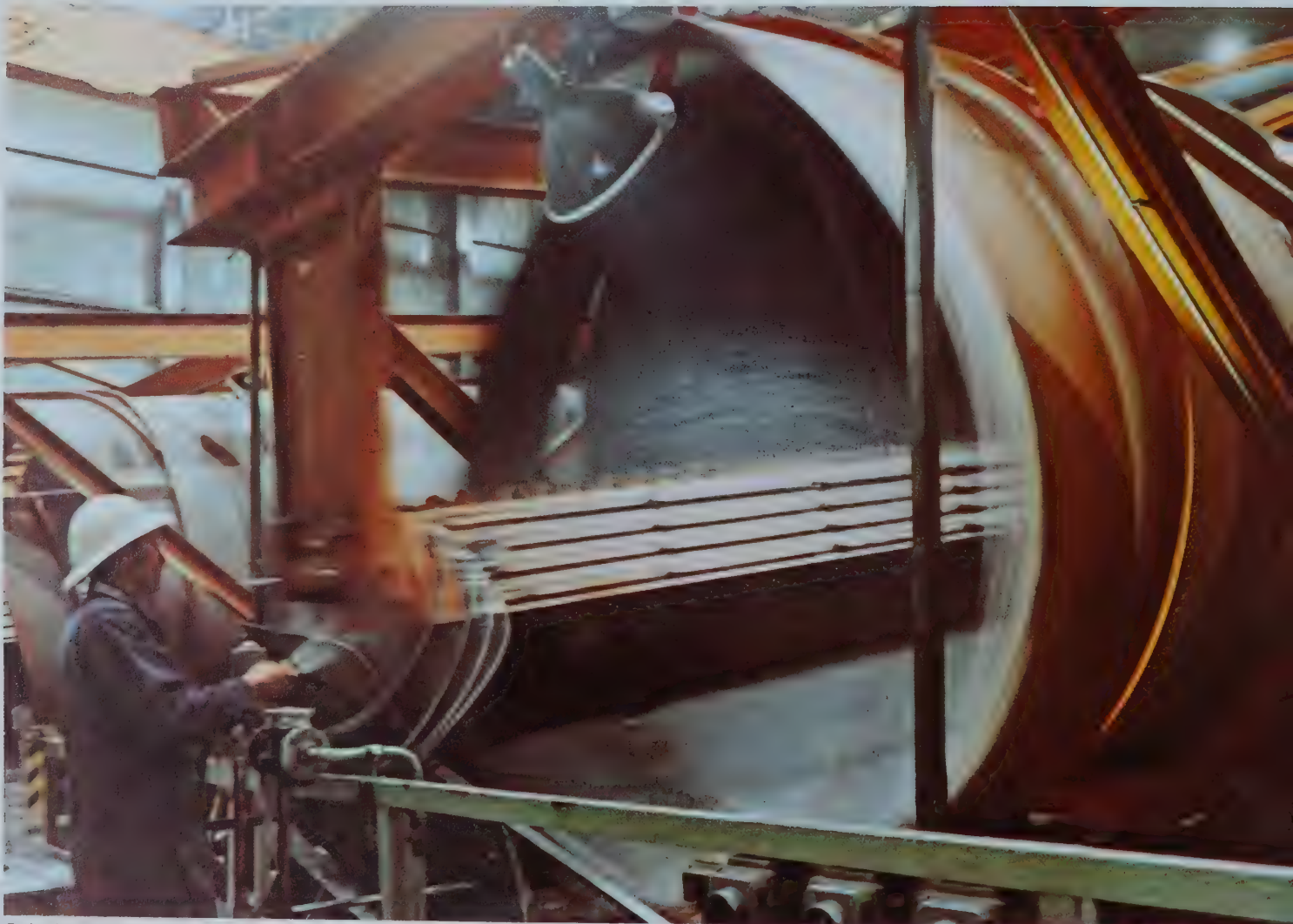
Worldwide recognition grew for products and know-how of the Cement and Mining Systems Division in iron ore pelletizing, pyro-processing and grinding applications.

The unique *Grate-Kiln* system for producing high grade iron ore pellets made news both north of the Arctic Circle and in Africa. Two such plants, each including a rotary kiln, balling drums, traveling grate and circular cooler, went on stream—one in Sweden, the other in Norway. An agreement was signed for supplying a complete plant in Liberia, the first for the African continent and the 21st furnished worldwide by Allis-Chalmers since 1959.

Rotary kiln orders mounted for cement, lime and other pyro-processing uses. There are now more than 600 in operation throughout the Free World. Put into service was a plant believed to be the highest cement making operation in the world, an installation at 12,800-foot altitude in Bolivia.

A wide range of grinding equipment was available for processing facilities. U. S. orders were complemented by a contract calling for three *Rockcyl* autogenous grinding mills to increase metal capacity at a mine-mill-smelter complex in Turkey.

Plant and principal products: West Allis, Wisconsin — kilns, grinding and agglomeration equipment, coolers, dryers.

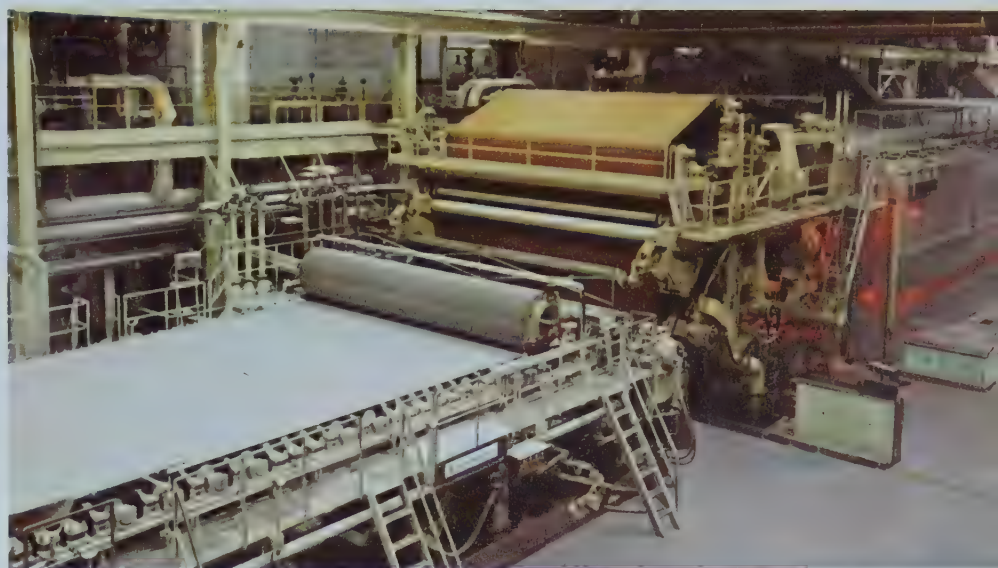


Spinning round and round, a balling drum shapes iron ore pellets at a Grate-Kiln plant in Norway.

PAPER MACHINERY DIVISION

The Paper Machinery Division placed three complete paper making machines in operation last year for companies at three U.S. locations. One machine represented 90 truckloads of equipment. Besides manufacturing and installing complete machines to produce various types and sizes of paper, the division provides the paper making and non-woven fabric industries with maintenance and auxiliary spare parts ranging from headboxes through reels.

Plant and principal products: Appleton, Wisconsin — paper making machines, headboxes and other components.



Fine papers are the product of this machine built for a large mill in the Midwest.

STANSTEEL CORPORATION

Products offered by Stansteel Corporation complement or extend existing Allis-Chalmers processing and construction machinery lines. The subsidiary was acquired in January of 1969. Prior to January 1, 1970, it was known as Standard Steel Corporation.

Stansteel's batch type asphalt plants, portable and semi-portable, serve the road machinery market. Its rotary dryers, coolers, calciners and small kilns fill industrial processing applications. Other important products are fish meal plants and air pollution abatement equipment for use in dust producing manufacturing operations.

Plants and principal products: Decatur, Illinois — rotary process equipment, vessels; Los Angeles, California — asphalt batch plants, fish meal plants, kilns, dryers, coolers, dust collectors, cryogenic equipment.

ALLIS-CHALMERS CANADA LIMITED

The goal of Allis-Chalmers Canada Limited is to increase its importance as a supplier of capital goods on a worldwide basis. In 1969, even with lower sales due to discontinuing the manufacture of certain products, it achieved its highest profit level in five years. The renamed subsidiary, formerly Canadian Allis-Chalmers Limited, produces equipment for mining, pulp and paper making, processing and other industries. Its export business includes machinery and components for U.S. customers.

Products range across many applications: pumps for ore and pulp slurries and for pumping water; compressors for air and refrigeration services; crushing and grinding equipment for ore; vibrating screens for sizing stone; rotary kilns, coolers and dryers for pyro-processing lime, cement and ores; and electrical controls for diesel locomotives.

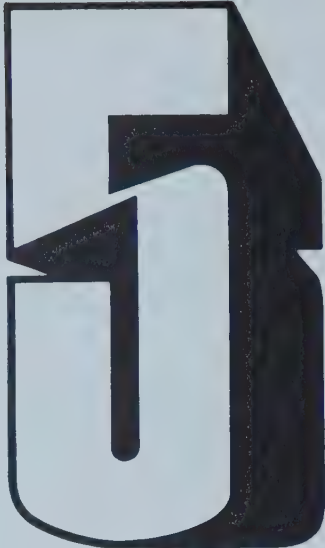
A major order in 1969 was one for 10 large centrifugal compressors to be used at a heavy-water plant in Ontario. Another called for two 80-foot-long rotary dryers for a nickel mining complex in the Dominican Republic.

Plant and principal products: Lachine, Quebec — pumps, electrical controls for diesel locomotives, compressors, crushers, vibrating screens, grinding mills, kilns, coolers.

Hot mix asphalt is produced by one of the portable batch type plants that Stansteel Corporation makes.



CONSUMER PRODUCTS GROUP



An expanding position in consumer goods is important in Allis-Chalmers programs for profitability. The Consumer Products Group has been channeling its energies to that goal through the Outdoor Products Division and the Appliance Division. Activity has centered on mobile outdoor power equipment, recreational vehicles and the major home appliance field.

Simplicity Manufacturing Company, an independently operated subsidiary, produces mobile outdoor power equipment which it markets through its own separate dealer and distributor organization.

The potential market for the mobile outdoor power equipment industry was estimated at about \$700 million in 1969. The annual real growth rate for the next five years is projected to average about 12 per cent.

For major appliances, the industry's estimated 1969 potential market was about \$11 billion, with an average annual growth rate of 4 per cent.

Announced in December, 1969, was the purchase by Allis-Chalmers of 80 per cent of the equity in Lantz International Corporation, an organization engaged in importing, designing and marketing of household appliances. It will be operated as a subsidiary.



Hydrostatic drive is a feature of the HB-212, an Allis-Chalmers lawn and garden tractor with 12 horsepower. Accessories and options fit it and other models to all-around use.

OUTDOOR PRODUCTS DIVISION

Dedication of a new plant and expansion of product lines pointed up the thrust of the Outdoor Products Division. The plant at Lexington, South Carolina, is the division headquarters and production facility for mobile outdoor power equipment and recreational vehicles.

During 1969 the division started production of new models in its riding mower and lawn and garden tractor lines. It began marketing new snow thrower and walk-behind rotary mower models and a more powerful model of its *Terra Tiger* all-terrain vehicle, which is becoming increasingly popular for family and group enjoyment.

In support of its leisure-time lines, the division developed plans for aggressive promotion programs and for additional major market retail and service outlets.

Plant and principal products: Lexington, South Carolina—mobile outdoor power equipment, including riding mowers and lawn and garden tractors; all-terrain vehicles.



The Allis-Chalmers refrigerator is a gathering spot for snack preparations in a mobile home.

APPLIANCE DIVISION

The Appliance Division is offering a line of refrigerators and is studying further opportunities with respect to household appliances.

The refrigerators, ranging from 2½ to 12 cubic feet, are designed for the household consumer market. Representative models were displayed early in 1970 at the national mobile home show. At the present time, refrigerators are being imported.

During 1970 the division will accelerate its program to franchise distributors and dealers in developing a marketing system.

SIMPLICITY MANUFACTURING COMPANY

Simplicity Manufacturing Company emphasized greater penetration in American metropolitan markets and development of opportunities abroad as sales volume continued to increase. It expanded its line of mobile outdoor power equipment and strengthened its dealer and distributor organization.

Products introduced for 1970 included an 8-horsepower lawn and garden tractor, a 5-horsepower riding mower with electric start, two new models of snow throwers and a new walk-behind powered mower. Product and dealer programs were aimed at appealing to a broader segment of home owners and meeting requirements of schools, athletic fields and similar large areas.

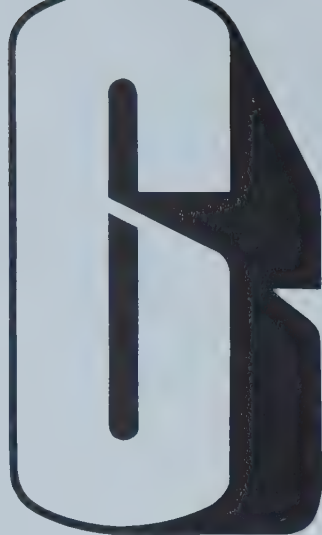
Simplicity increased its number of European distributors and plans entry into several other countries.

Plant and principal products: Port Washington, Wisconsin—mobile outdoor power equipment, including riding mowers, lawn and garden tractors, snow throwers, walk-behind mowers, rotary tillers.



A Terra Tiger all-terrain vehicle provides the transportation for an outing off the beaten path.

FINANCING SERVICES



Customer sales financing services and equipment leasing operations have been redirected to follow new avenues of expanding profit potential. Two subsidiaries, Allis-Chalmers Credit Corporation and Allis-Chalmers Leasing Corporation, are pursuing those activities.

The Allis-Chalmers International Finance Corporation, an unconsolidated finance subsidiary, serves a threefold purpose: Borrowing long and short term capital in international money markets in a manner consistent with U.S. balance of payments objectives; financing international sales; and lending to Allis-Chalmers affiliates worldwide.

ALLIS-CHALMERS CREDIT CORPORATION

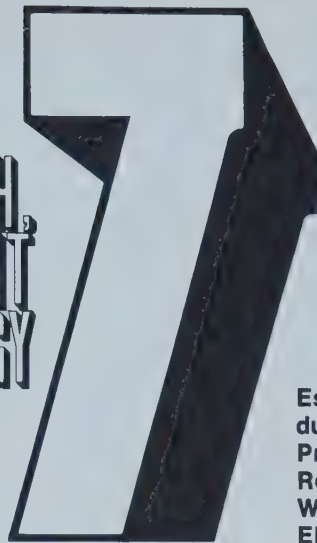
Expanded service capabilities enabled the Allis-Chalmers Credit Corporation to seek out further market opportunities in its first year of autonomy as a profit center for the parent Company. The staff of finance professionals was increased, and training of personnel stressed heightened proficiency in each of the many markets served. Special finance plans tailored to new products were developed. Existing area finance offices were restructured, with plans made for establishing additional branches in 1970.

Because of these services, Allis-Chalmers marketing organizations have the ability to expand sales through retail financing and have dealer inventory financing accommodations. Founded in 1956, the Credit Corporation has grown to the ninth largest captive finance company in the U. S. and 24th largest financial services company.



Lift trucks are among the many products for which financing and leasing plans are available.

RESEARCH, DEVELOPMENT & TECHNOLOGY



Essential to growth plans in industry is responsive, productive activity in research, development and technology. Prime operations for such purposes in 1969 were the Research and Development Center, the newly organized Water Pollution Control Department and the Advanced Electrochemical Products Division.

The Research and Development Center provided the capability of assisting the operating divisions with specialized scientific knowledge and technique applied to products and services. Another objective was application of new concepts to develop products or processes unrelated to present profit centers. An example of this is a gas generation system designed to produce ultra-pure hydrogen for chemical processing, crystal synthesis, food processing and other uses. The system operates on the water electrolysis principle.

As a follow-through on experience and expertise already accumulated in water pollution abatement, the Water Pollution Control Department was established in 1969. Among its projects, the department is operating a federally-funded pilot waste-water treatment system in Milwaukee utilizing the *Bio-Disc* process. Rotating discs become covered with a thin layer of bacterial growth, and this film assimilates or oxidizes the organic impurities in the waste fluid. Department plans call for marketing treatment modules capable of handling the requirements of 100 to 1,000 people, suited to the needs of small towns, motels, resorts and industrial facilities.

For the Advanced Electrochemical Products Division, potential applications of its water electrolysis and fuel cell technology exist in aerospace, hydrospace and terrestrial markets. In one activity, it has been working on advanced technology for its integrated life support system, supplying oxygen by water electrolysis. Work with fuel cells, which convert chemical energy into electricity, also is continuing—including development of advanced systems as electric power sources for space vehicles.

Facilities and principal activities: Greendale, Wisconsin (Advanced Electrochemical Products Division)—fuel cell power systems, water electrolysis equipment for integrated life support systems; Wauwatosa, Wisconsin (Water Pollution Control Department)—waste-water treatment system; West Allis, Wisconsin (Research and Development Center)—gas generation systems; research, development, testing.



In the biological waste-water treatment process, rotating discs of a Bio-Disc module are partly submerged in a trough carrying the fluid flow.

STATEMENT OF FINANCIAL CONDITION

ALLIS-CHALMERS
MANUFACTURING COMPANY
AND CONSOLIDATED
SUBSIDIARIES

ASSETS	December 31	1969	1968
Current Assets			
Cash	\$ 20,819,452	\$ 23,483,905	
Receivables — less reserves of \$14,515,900 and \$16,171,800, respectively	137,604,363	126,836,883	
Inventories — at lower of approximate cost or market (12% valued at LIFO), less progress payments of \$19,317,018 and \$14,286,644, respectively ...	244,436,647	234,115,066	
Income tax refunds and future income tax benefits (Note 3) ...	20,952,622	35,619,025	
Other current assets	1,657,824	3,997,779	
Total Current Assets	425,470,908	424,052,658	
Estimated Future Income Tax Benefits (Note 3)	21,078,149	42,972,400	
Investments and Other Assets			
Investment in finance subsidiaries — at equity in net assets	63,536,856	53,498,936	
Investment in other subsidiaries — at cost, less reserves (Note 1)	17,727,936	18,524,117	
Intangible assets arising from acquisition (Note 2)	7,389,935	7,389,935	
Other investments, assets and deferred charges (Note 6)	11,766,068	6,366,775	
Total Investments and Other Assets	100,420,795	85,779,763	
Plants and Equipment at cost			
Land and buildings	112,252,410	110,168,287	
Machinery and equipment	194,043,253	190,005,484	
Tools, patterns and fixtures	34,339,211	32,212,797	
Furniture and fixtures	8,113,181	7,136,070	
	348,748,055	339,522,638	
Accumulated depreciation and amortization (Note 4)	193,101,031	186,714,838	
Net Plants and Equipment	155,647,024	152,807,800	
	<u>\$702,616,876</u>	<u>\$705,612,621</u>	

LIABILITIES AND EQUITY	December 31	1969	1968
Current Liabilities			
Notes payable and current maturities of long-term debt	\$ 67,817,334	\$106,382,295	
Accounts payable and payrolls	74,331,125	68,970,051	
Federal, state and foreign income taxes	1,666,007	883,458	
Reserves for completion of contracts and product corrections and current portion of special reserves	48,070,096	69,486,985	
Other current liabilities	22,381,780	20,606,507	
Total Current Liabilities	214,266,342	266,329,296	
Special Reserves (Note 3)			
Estimated costs of parts replacement, warranty costs, repossession losses and price allowances	22,216,904	40,260,106	
Estimated costs and losses associated with relocation and discontinuance of facilities and products	14,658,932	28,494,304	
	36,875,836	68,754,410	
Less amount included in current liabilities	31,000,000	48,000,000	
Total Special Reserves — Non-Current	5,875,836	20,754,410	
Long-Term Debt (Note 5)			
Notes payable	63,000,000	66,000,000	
Sinking fund debentures	45,000,000	45,000,000	
Other long-term debt	3,403,897	3,361,924	
Total Long-Term Debt	111,403,897	114,361,924	
Shareholders' Equity (Note 6)			
Preferred stock, \$100 par value, 500,000 shares authorized — outstanding — 450,000 shares \$4 cumulative convertible, series A	45,000,000	—	
Common stock, \$10 par value, 12,500,000 shares authorized — outstanding — 10,690,292 shares in 1969 and 10,410,292 shares in 1968, after deducting 9,708 and 42,869 shares held in treasury, respectively	106,902,920	104,102,920	
Capital in excess of par value of capital stock	119,621,752	122,548,752	
Earnings retained	99,546,129	77,515,319	
Total Shareholders' Equity	371,070,801	304,166,991	
	<u>\$702,616,876</u>	<u>\$705,612,621</u>	

**STATEMENTS
OF INCOME (LOSS)
& EARNINGS
RETAINED**

**ALLIS-CHALMERS
MANUFACTURING COMPANY
AND CONSOLIDATED
SUBSIDIARIES**

INCOME (LOSS) FOR THE YEAR Ended December 31

1969

1968

Sales and Other Income

Sales	\$804,736,864	\$777,102,100
Discounts, interest earned and other income	12,954,193	11,152,147
Income of finance subsidiaries	10,778,191	9,901,233
	<u>828,469,248</u>	<u>798,155,480</u>

Costs and Expenses

Materials, plant payrolls and services	607,104,848	681,631,018
Depreciation	17,844,269	16,024,167
Selling, general and administrative expense	128,120,318	162,551,862
Discount and interest on receivables sold to finance subsidiaries	25,037,157	21,662,133
Other interest expense	9,779,989	9,380,927
	<u>787,886,581</u>	<u>891,250,107</u>

Income (Loss) before income taxes and extraordinary charges	40,582,667	(93,094,627)
Federal, state and foreign income taxes (Note 3)	(22,160,000)	51,942,000
Income (Loss) before extraordinary charges	<u>18,422,667</u>	<u>(41,152,627)</u>
Extraordinary charges — net of income taxes of \$15,057,211	—	(13,437,093)
Net Income (Loss) for the Year	<u>\$ 18,422,667</u>	<u>\$ (54,589,720)</u>

Earnings per common share and common equivalent share (Note 6) —		
Income (Loss) before extraordinary charges	\$1.51	\$(3.96)
Extraordinary charges, net of income taxes	—	(1.30)
Net Income (Loss) for the Year	<u>\$1.51</u>	<u>\$(5.26)</u>

EARNINGS RETAINED

Earnings Retained — Beginning of Year	\$ 77,515,319	\$138,557,648
Standard Steel Corporation (Note 1)	5,103,043	—
Net Income (Loss) for the Year	<u>18,422,667</u>	<u>(54,589,720)</u>
	<u>101,041,029</u>	<u>83,967,928</u>
Dividends Paid		
Preferred stock	1,494,900	—
Common stock (per share \$.62½)	—	6,452,609
	<u>1,494,900</u>	<u>6,452,609</u>
Earnings Retained — End of Year	<u>\$ 99,546,129</u>	<u>\$ 77,515,319</u>

1968 has been restated to conform with the current year's account classifications.

STATEMENT OF SOURCE & APPLICATION OF FUNDS

**ALLIS-CHALMERS
MANUFACTURING COMPANY
AND CONSOLIDATED
SUBSIDIARIES**

Source of Funds:

Operations:

Net income for the year	\$ 18,423
Depreciation of plants and equipment	17,844
Decrease in estimated future income tax benefits — non-current	21,894
	<u>58,161</u>
Deduct: Net income of unconsolidated finance subsidiaries	4,766
Total Source of Funds — Operations	<u>53,395</u>
Net proceeds from sale of 450,000 shares of \$4 preferred stock	44,773
Net current assets of Standard Steel Corporation at date of acquisition	3,385
Disposal of plants and equipment	<u>7,880</u>
Total Source of Funds	<u>109,433</u>

Application of Funds:

Additions to plants and equipment	27,575
Reduction of special reserves — non-current	14,879
Net reduction of long-term debt	2,958
Investments in finance and other subsidiaries	4,475
Increase in other investments, assets and deferred charges	4,570
Dividends on \$4 preferred stock	<u>1,495</u>
Total Application of Funds	<u>55,952</u>
Increase in Working Capital	53,481
Working Capital, January 1, 1969	<u>157,723</u>
Working Capital, December 31, 1969	<u>\$211,204</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Basis of Consolidation

All domestic and Canadian subsidiaries, except finance subsidiaries and a marketing subsidiary, are included in the consolidated financial statements. The Company's investments in and advances to the unconsolidated foreign subsidiaries of \$4,503,430, less reserve of \$3,086,494, and the investment in and advances to the unconsolidated marketing subsidiary of \$23,163,000, less reserve of \$6,852,000, are approximately equal to the net assets of the respective subsidiaries. On December 31, 1969, the Company assigned the investment in its British subsidiary of \$5,271,450 to Allis-Chalmers International Finance Corporation, an unconsolidated finance subsidiary. This amount is included in the finance subsidiary's investments in and advances to unconsolidated foreign subsidiaries which amounted to \$13,769,390 at December 31, 1969. (See page 30 for finance subsidiaries combined financial statements.)

In January 1969, the Company issued 280,000 shares of its common stock in exchange for the net assets of Standard Steel Corporation in a transaction which was accounted for as a pooling of interests. The consolidated financial statements for 1968 were not restated to include the accounts of Standard Steel because of the relative immateriality of the amounts involved.

Note 2 — Intangible Assets Arising from Acquisition

The excess of the purchase price over the value assigned to the assets acquired from Simplicity Manufacturing Company in October 1965 is not being amortized at present due to a suit brought by the Department of Justice contesting the acquisition. (See Note 9 to the financial statements.) Management believes that the asset is not diminishing in value and that the suit is without merit and will be successfully defended.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Note 3 — Special Reserves and Income Taxes

Provisions were recorded in the last quarter of 1968 to establish special reserves for the anticipated costs and losses which would result from implementation of the Company's proposed programs for substantial changes in the organization, products and production facilities, marketing and relations with dealers and customers. Changes in these reserves during 1969 are summarized as follows:

Balances in reserves at beginning of year	\$68,754,410
Costs and losses incurred —	
Parts replacement, warranty costs, repossession losses and price allowances	18,043,202
Relocation and discontinuance of facilities and products, including employee separation costs	13,835,372
Total costs and losses	31,878,574
Balances in reserves at end of year	\$36,875,836

Although the costs and losses to be charged to the reserves in the future cannot be finally determined at the present time, management believes that the remaining reserves represent a fair and reasonable determination of the amounts required.

The Company will file a consolidated federal income tax return for 1969 and no taxes will be payable. Federal taxable income, before application of tax loss carryforwards, will be nominal because the current year's charges to the special reserves recorded in 1968 will be deducted in arriving at taxable income and because of normal book-tax timing differences.

The tax benefits expected to be realized from future charges to the special reserves and from future utilization of tax loss carryforwards were recorded in 1968. An amount equivalent to such tax benefits realized in 1969 of \$16,992,678 is included in the current year's income tax provision, together with \$3,077,996 relating to normal book-tax timing differences, primarily depreciation of plants and equipment, and \$2,089,326 relating principally to state and foreign taxes payable.

The realization of the remaining estimated future income tax benefits at December 31, 1969 of \$40,824,530, including \$19,746,381 in current assets relating to normal book-tax timing differences, is dependent upon the generation of future taxable income. In the opinion of management, the realization of such tax benefits is assured beyond any reasonable doubt.

The Company has unrecorded investment tax credit carryforwards of \$6,380,600 applicable to the years 1963 through 1969 which may be used to reduce income taxes payable in the future.

Note 4 — Depreciation Policy

Substantially all plants and equipment are depreciated over their estimated useful lives on the straight line method. See Note 7 to the financial statements for the change in accounting for the costs of patterns in 1969.

Note 5 — Long-Term Debt

Notes payable at December 31, 1969, consisted of \$52,500,000 3½% notes and \$10,500,000 3¾% notes, all payable to insurance companies, due \$3,000,000 annually, maturing in 1982. The sinking fund debentures of \$45,000,000 due in 1990, bear interest at 4.85%. The debentures are entitled to a mandatory sinking fund commencing in 1971, sufficient to retire 76% of the debentures prior to maturity (\$1,800,000 per year). Other long-term debt consists of (a) capitalized lease obligations of \$2,135,000, (b) a construction loan of \$1,060,000 and (c) mortgage notes payable by a subsidiary company of \$208,897.

Note 6 — Shareholders' Equity and Dividend Restrictions

In March 1969, the Company realized \$45,000,000, less expenses of \$227,000, from the sale of 450,000 shares of \$4 cumulative convertible preferred stock, series A, \$100 par value, which is redeemable at \$104 per share. Each share of the preferred stock is convertible into four shares of common stock and is entitled to the same number of votes as the common stock into which it is convertible. In connection with the sale of the preferred stock, the Company returned to authorized but unissued stock 33,161 shares of treasury common stock, and reserved 1,800,000 of authorized but unissued shares of common stock for issuance upon conversion of the 450,000 shares of preferred stock.

Earnings per common share and common equivalent share were computed by dividing net income by the weighted average of the number of common shares outstanding during the year and of the number of common shares issuable upon conversion of the preferred stock.

The decrease in capital in excess of par value of capital stock in 1969 of \$2,927,000 resulted from the acquisition of Standard Steel Corporation in exchange for common stock and from the expenses associated with the sale of the preferred stock.

Other non-current assets include a note receivable from the president of the Company for \$1,035,000, relating to the sale of 40,000 shares of treasury stock in 1968, which is payable on March 4, 1974, with interest at a rate of 5%. The note is secured by a pledge and assignment of the common stock.

Agreements relating to debentures and notes payable and the certificate of incorporation contain certain restrictions relating to the declaration of cash dividends on common stock. The amount of earnings retained which was available for the future declaration of cash dividends on common stock was approximately \$20,200,000 at December 31, 1969.

Note 7 — Accounting Changes

Effective January 1, 1969, the Company adopted the policy of capitalizing the costs of patterns for financial accounting purposes. The costs of patterns will be depreciated over periods of 4 and 8 years, whereas, prior to 1969, the costs were expensed as incurred. This change resulted in an increase in net income for 1969 of \$411,112, equal to \$.03 per common share.

As explained in Note 1 to the combined financial statements of the finance subsidiaries on page 31 of this report, Allis-Chalmers Credit Corporation changed its method of recording finance income in

1969. Since the net income of the finance subsidiaries is included in the consolidated income statement of Allis-Chalmers under the equity method of accounting, this change resulted in an increase in consolidated net income for 1969 of \$529,207, equal to \$.04 per common share.

Note 8 — Pension Plans

The Company and its consolidated subsidiaries have several noncontributory retirement and pension plans covering substantially all of their employees. The total pension expense charged to income was \$21,910,000 in 1969 and \$20,866,000 in 1968. These amounts include amortization of prior service cost of the principal hourly plans over a 30-year period. The Company's policy is to fund pension cost accrued. The actuarially computed value of vested benefits for all plans exceeded the total of the pension funds and balance sheet accruals by approximately \$92,400,000 and \$79,000,000 at the 1969 and 1968 plan valuation dates, respectively. Pension expense and the value of vested benefits increased in 1969 as a result of an increase in retirement benefits, partially offset by changes in actuarial assumptions.

Note 9 — Commitments and Contingencies

Litigation: (a) An action started by the Company in the U. S. District Court for the District of Delaware against White Consolidated Industries, Inc. in December 1968 under Section 7 of the Clayton Act, to enjoin White from, among other things, attempting to obtain control over the Company by voting its shares of the Company's common stock, by increasing its holdings of the Company's common stock or by attempting to elect directors to the Company's Board of Directors. The action also seeks to compel divestiture by White of its holdings of Allis-Chalmers common stock on terms that would not be injurious to the Company. In pursuance of a decision in favor of Allis-Chalmers by the U. S. Court of Appeals for the Third Circuit, and following a denial by the U. S. Supreme Court of White's petition for a review of the Court of Appeals decision, the District Court in January 1970 enjoined White from, among other things, voting shares of Allis-Chalmers stock owned or controlled by it for representation on the Company's Board and from taking steps to increase its holdings of Allis-Chalmers stock, pending outcome of the suit.

(b) An action started by the Company in the U. S. District Court for the Eastern District of Wisconsin against Gulf & Western Industries, Inc. in January 1969, under Section 16(b) of the Securities Exchange Act of 1934, to recover "short-swing profits" realized by Gulf & Western from its sale of 3,248,000 shares of the Company's common stock to White Consolidated Industries, Inc. Gulf & Western has filed an action in the U. S. District Court for the Northern District of Illinois seeking exemption from the provision of such Act on the ground that it was obliged to sell such stock under duress. The first action has been transferred to the U. S. District Court, Northern District of Illinois, for trial.

(c) An action started in the U. S. District Court for the Eastern District of Wisconsin by the Department of Justice against the Company in 1965, under Section 7 of the Clayton Act, to obtain injunctive relief and an order of divestiture arising out of the Company's acquisition of the assets of Simplicity Manufacturing Company. The case has been tried and submitted to the Court.

(d) An action brought against the Company, the individual Directors and others in the Court of Chancery of the State of Delaware by White Consolidated Industries, Inc. in July 1969, to obtain, among other things, rescission of an agreement under which Allis-Chalmers sold 450,000 shares of preferred stock to private investors. White claims damages and is seeking injunctive relief. The case is pending. Generally similar actions have been brought by a shareholder of the Company in the U. S. District Court for the Southern District of New York and the Court of Chancery in the State of Delaware.

(e) An action brought against the Company by White Consolidated Industries, Inc. in February 1969, to obtain rescission of an acquisition agreement between the Company and Standard Steel Corporation, damages and injunctive relief to prohibit the Company from taking any steps which would unreasonably dilute the voting equity of White in the Company. The Company has filed an answer denying the allegations of wrongdoing in the complaint. The action is pending.

(f) An action brought against the Company and the individual Directors by M. Geller, et al. in August 1967, claiming damages arising out of the refusal of the Directors to endorse the Ling-Temco-Vought, Inc. proposal to acquire shares of the Company. The action is pending in the U. S. District Court, Eastern District of New York.

There are various other lawsuits pending against the Company, arising in the normal course of business.

Management believes, based on the opinion of legal counsel, that the final disposition of the foregoing actions will not have a material adverse effect on the Company's financial position.

The Company has guaranteed payment of the \$15,000,000 6½% notes payable of its wholly-owned subsidiary, Allis-Chalmers International Finance Corporation, and of approximately \$7,000,000 of bank borrowings of foreign subsidiaries.

Under certain circumstances, the Company is obligated to repurchase delinquent financing paper sold to its finance subsidiaries. The repurchase price is generally the net carrying value of the paper at time of repurchase or, if there is no recourse to a dealer, the estimated market value of the machinery.

Annual rental commitments under long-term leases, which expire at various periods through 1991, amounted to approximately \$600,000 at December 31, 1969.

REPORT OF INDEPENDENT ACCOUNTANTS

*To the Board of Directors of
Allis-Chalmers Manufacturing Company*

We have examined the consolidated statement of financial condition of Allis-Chalmers Manufacturing Company as of December 31, 1969, the related statements of consolidated income and earnings retained and the consolidated statement of source and application of funds for the year. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained in Note 3 to the financial statements, in the last quarter of 1968 the Company recorded substantial amounts associated with (a) reserves for anticipated costs and losses, and (b) estimated income tax benefits expected to be realized in the future. A determination of the costs and losses to be charged to the reserve balances remaining at December 31, 1969, and realization of the remaining anticipated tax benefits, is dependent upon completion of the Company's proposed programs and generation of future taxable income.

In our opinion, subject to the effect on the consolidated statements of financial condition, earnings retained and source and application of funds of any adjustments which may result from ultimate determination of the matters referred to in the preceding paragraph, the accompanying consolidated financial statements examined by us present fairly the financial position of Allis-Chalmers Manufacturing Company and its subsidiaries at December 31, 1969, the results of their operations and the supplementary information on funds for the year, in conformity with generally accepted accounting principles applied, except for the changes, which we approve, in accounting for patterns and finance income as explained in Note 7 to the financial statements, on a basis consistent with that of the preceding year.

*Milwaukee, Wisconsin
February 23, 1970*

PRICE WATERHOUSE & CO.

Combined
Financial
Statements

STATEMENT OF FINANCIAL CONDITION / December 31		1969	1968
ASSETS			
Cash		\$ 29,265,464	\$ 21,696,063
Receivables —			
Notes and installment contracts from customers and dealers		209,288,543	188,355,966
Floor plan contracts		179,273,848	174,536,161
Less: Reserve for possible losses		(1,000,000)	(1,000,000)
Unearned discount, finance charges and rentals		(38,196,963)	(36,865,799)
Net receivables		349,365,428	325,026,328
Leasehold machinery, less depreciation of \$5,260,134 and \$3,500,337, respectively		11,978,318	9,836,379
Investments in and advances to foreign affiliate and foreign subsidiaries of Allis-Chalmers Manufacturing Company		13,769,390	9,260,160
Receivable from Allis-Chalmers Manufacturing Company		1,833,787	1,225,453
Other assets, accrued interest receivable and deferred charges		3,941,467	4,876,511
		<u>\$410,153,854</u>	<u>\$371,920,894</u>
LIABILITIES AND EQUITY			
Notes payable — short term	\$213,131,638		\$184,299,667
Other payables and taxes	4,485,359		4,122,291
Term notes to insurance companies	114,000,000		115,000,000
6 $\frac{5}{8}$ % Notes payable	15,000,000		15,000,000
5 $\frac{1}{4}$ % Junior subordinated notes to parent company, due 1988	—		10,000,000
Capital stock	35,200,000		25,200,000
Capital in excess of par value of capital stock	5,271,450		—
Earnings retained	23,065,407		18,298,936
		<u>\$410,153,854</u>	<u>\$371,920,894</u>

STATEMENT OF INCOME AND EARNINGS RETAINED

Income from financing operations	\$ 42,303,957	\$ 35,652,164
Interest expense	24,341,186	19,680,927
Operating expenses	7,184,580	6,070,004
Federal, state and foreign income taxes	6,011,720	4,997,100
	<u>37,537,486</u>	<u>30,748,031</u>
Net Income for the Year	4,766,471	4,904,133
Earnings Retained — Beginning of Year	18,298,936	13,394,803
Earnings Retained — End of Year	<u>\$ 23,065,407</u>	<u>\$ 18,298,936</u>

See accompanying notes to combined financial statements.

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 1 — Notes and Installment Contracts

Notes and installment contracts receivable at December 31, 1969 include \$182,694,721 of retail receivables and \$26,593,822 due from dealers, principally for the financing of rental equipment. Note and contract installments, which by their terms are collectible after one year, amounted to \$102,320,719 at December 31, 1969.

In 1969 Allis-Chalmers Credit Corporation adopted, for financial accounting purposes, a sum of the digits method for recognizing finance income on notes receivable and installment contracts purchased after January 1, 1969. The straight-line method of recognizing finance income is used for notes receivable and installment contracts purchased prior to 1969. This change resulted in an increase in net income of \$529,207 in 1969.

Note 2 — Notes Payable and Capital Stock

Term notes payable to insurance companies, at December 31, 1969, consisted of (a) \$29,280,000 4 $\frac{7}{8}$ % senior notes and \$9,720,000 5 $\frac{1}{4}$ % senior subordinated notes, due \$1,000,000 annually with final maturity in 1983; (b) \$25,000,000 5 $\frac{1}{4}$ % senior notes and \$10,000,000 5 $\frac{1}{2}$ % senior subordinated notes, due \$880,000 annually commencing in 1971 with final maturity in 1985; and (c) \$30,000,000 6 $\frac{3}{8}$ % senior notes and \$10,000,000 6 $\frac{3}{4}$ % senior subordinated notes, due \$1,000,000 annually commencing in 1973 with final maturity in 1987.

The 6 $\frac{3}{8}$ % notes payable, which are guaranteed by the parent company, mature in 1972 and are redeemable in whole or in part, at the option of the subsidiary company, at fixed redemption prices plus accrued interest, beginning February 1, 1970.

In 1969 Allis-Chalmers Credit Corporation issued 2,000 shares of capital stock with a stated value of \$10,000,000 in exchange for cancellation of its 5 $\frac{1}{4}$ % junior subordinated notes payable to the parent company.

On December 31, 1969 the parent company assigned the investment in its British subsidiary of \$5,271,450 to the Allis-Chalmers International Finance Corporation and this amount was credited to capital in excess of par value of capital stock.

Note 3 — Federal Income Taxes

The combined income and expenses of the finance subsidiaries will be included in the 1969 consolidated federal income tax return of the parent company. No federal tax will be payable; however, a provision of \$4,494,500, which approximates the federal taxes that would have been payable on a separate company basis, has been made and credited to the parent company. The provision for income taxes in 1969 also includes \$619,500 of net deferred income taxes, relating principally to the difference between the financial and tax accounting methods of recognizing finance income, and \$897,720 of state and foreign income taxes payable.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of
Allis-Chalmers Manufacturing Company

In our opinion, the accompanying combined statement of financial condition and the related combined statement of income and earnings retained present fairly the combined financial position of Allis-Chalmers Credit, Leasing and International Finance Corporations at December 31, 1969 and the combined results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year except for the change, which we approve, in accounting for finance income as explained in Note 1 to the combined financial statements. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Milwaukee, Wis.

February 23, 1970

PRICE WATERHOUSE & CO.

10 YEAR SUMMARY

	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960
MILLIONS OF DOLLARS										
Sales	804.7	777.1	821.7	857.2	714.4	629.0	543.9	516.0	502.2	530.0
Taxes on Income	22.1	(51.9)	1.1	24.7	20.7	10.9	5.2	5.5	6.1	12.3
Income (Loss) before Extraordinary Charges	18.4	(41.2)	5.0	26.1	22.1	12.7	6.8	6.4	6.3	10.9
Extraordinary Charges, Net of Taxes	—	(13.4)	—	—	—	(21.0)	—	(16.4)	—	—
Net Income (Loss)	18.4	(54.6)	5.0	26.1	22.1	(8.3)	6.8	(10.0)	6.3	10.9
PER COMMON SHARE										
Income (Loss) before Extraordinary Charges	1.51	(3.96)	.41	2.67	2.33	1.38	.73	.67	.66	1.17
Extraordinary Charges, Net of Taxes	—	(1.30)	—	—	—	(2.35)	—	(1.81)	—	—
Net Income (Loss)	1.51	(5.26)	.41	2.67	2.33	(.97)	.73	(1.14)	.66	1.17
Dividends	—	.62½	1.00	.81¼	.56¼	.50	.50	.75	1.25	1.50
Book Value	30.50	29.22	35.43	36.34	34.68	32.98	34.68	34.37	35.94	36.53
MILLIONS OF DOLLARS										
Shareholders' Equity	371.0	304.1	363.5	363.1	345.9	300.7	313.4	312.8	334.8	340.9
Long-Term Debt	111.4	114.3	118.2	125.5	130.2	87.1	82.4	86.1	89.8	93.4
Property, Plant and Equipment (Gross)	348.7	339.5	320.1	295.3	294.8	286.5	278.8	271.0	255.6	239.5
AT YEAR-END										
Number of Employees (Worldwide)	29,958	32,202	33,552	38,633	35,249	34,259	33,552	32,897	30,216	32,173
Shares Outstanding — Preferred Stock	450,000	—	134,594	284,090	394,216	94,416	94,416	94,416	94,416	94,416
Common Stock	10,690,292	10,410,292	9,881,481	9,370,543	9,006,430	9,005,763	8,893,263	8,956,982	9,101,381	9,101,381
Number of Shareholders — Common Stock	35,863	40,996	50,540	59,941	54,707	58,679	61,266	65,977	67,997	67,495

DIRECTORS

DAVID C. SCOTT
FRED BOHEN
W. E. BUCHANAN
J. C. CLAMP, Jr.
JOHN M. COATES
G. O. HAGLUND
MAXWELL H. HERRIOTT
JOEL HUNTER
JOSEPH W. SIMPSON, Jr.
BEAUCHAMP E. SMITH
HOWARD J. TOBIN

OFFICERS

DAVID C. SCOTT, *President and Chief Executive Officer
and Chairman of the Board*
J. C. CLAMP, Jr., *Senior Vice President and Secretary*
G. O. HAGLUND, *Senior Vice President*
J. J. CHLUSKI, *Vice President*
P. O. DUNHAM, *Vice President*
O. J. HIGGINS, *Vice President*
M. W. JOHNSON, *Vice President*
JOHN S. LIEB, *General Attorney*
R. G. NORDSTROM, *Vice President*
C. W. PARKER, Jr., *Vice President*
W. S. PIERSON, *Controller*
C. W. SCHWEERS, *Vice President*
C. P. STANFORD, *Vice President*
C. J. TRONE, Jr., *Vice President*
R. G. WALKER, *Vice President*
PETER WARGO, *Vice President*

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PAUL DIETZ, *Regional Vice President*
T. D. LYONS, *Regional Vice President*

